AIMS

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MICROFINANCE PROGRAM CLIENTS AND IMPACT: AN ASSESSMENT OF ZAMBUKO TRUST, ZIMBABWE

EXECUTIVE SUMMARY

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Introduction

In recent years the growth and expansion of microfinance programs and increasing attention to microfinance as a poverty reduction strategy have given rise to a number of important questions. To what extent are microfinance clients from poor households? Do clients borrow from other sources? What impacts occur at the household, enterprise and individual levels? Are the impacts positive or negative? Do the impacts vary among different sub-groups of clients? These questions are addressed in this longitudinal assessment of Zambuko Trust, Zimbabwe. The findings have implications for understanding the context in which microfinance programs operate and the market for microfinance products and related services in Zimbabwe and elsewhere.

Purpose of the Assessment

The assessment of Zambuko Trust (Zambuko) is one of three longitudinal studies undertaken by the U.S. Agency for International Development's Assessing the Impacts of Microenterprise Services (AIMS) Project. The main objective of the assessment is to determine the nature, extent and distribution of impacts from participation in Zambuko's program. The secondary objectives are to better understand a) the role of credit within the household economy and b) the extent to which Zambuko reaches the poor.

Design and Coverage

The assessment design is based on a mixed method approach. It involved a survey, case studies, pre-survey qualitative interviews, and data from Zambuko's information system and secondary sources. The survey was conducted in 1997 and then repeated in 1999 with the same respondents. To assist in identifying whether the changes between the two survey periods were a result of participation in Zambuko's program, the survey included a random sample of non-client microentrepreneurs who met Zambuko's basic eligibility requirements. The non-clients were matched according to gender and microenterprise sector with individuals in the client sample. The survey data are supplemented by information from nine case studies of Zambuko clients to highlight the change process and assist in interpretation of the survey results. The case studies were carried out in 1998 and 1999.

The assessment covers a randomly selected sample of microentrepreneurs who were Zambuko clients in 1997 and non-client microentrepreneurs from three geographic areas: Greater Harare (Harare and Chitungwiza), Bulawayo and Mutare. These cities have the largest concentrations of Zimbabwe's urban population and approximately 60 percent of all of Zambuko's clients lived in these cities in May 1997. The 1997 survey covered 691 respondents: 393 clients and 298 non-clients. More than three-fourths were women, since Zambuko emphasizes serving women. In the follow-up survey, 87 percent of the 1997 sample was re-interviewed: 344 clients and 255 non-clients.

The survey data were analyzed by several statistical techniques to identify significant differences between the groups: chi-square tests, t-tests, and analysis of variance in the gain scores. The impact variables were subject to an analysis of covariance (ANCOVA) using multiple covariants. The ANCOVA approach statistically matches observations in the client and non-client samples that have the same 1997 values for the impact variable and a range of other selected variables, thus controlling for initial differences. It then compares the matched observations on their 1999 values for the impact variable to determine if there may be statistically significant differences between the clients and non-clients. The results then suggest whether or not participation in Zambuko's program has had a positive or negative impact on the client group.

The case study clients were interviewed following a protocol that set out a number of research questions about key changes in the enterprise, household and borrower. The protocol was designed to elicit responses about the chain of events leading to the changes.

Zimbabwe Context

Microenterprises are an important source of employment in Zimbabwe. In 1998 an estimated 860,000 micro and small enterprises were engaged in manufacturing, commerce and service activities. These enterprises generated self-employment and jobs for approximately 25 percent of Zimbabwe's working population.

Two important contextual factors affected the environment of microfinance institutions and microentrepreneurs in Zimbabwe during the study period: inflation and HIV/AIDS. Inflation, as measured by the consumer price index, increased rapidly in the late 1990s. The annual inflation rate rose from 14 percent in 1997 to 32 percent the following year, and then jumped to 70 percent in 1999. In 1999 the real value of the Zimbabwe dollar, when adjusted for inflation, was 50 percent less than it was in 1997.

In addition to inflationary pressures, Zimbabwe has been significantly affected by HIV/AIDS. An estimated one-quarter of the adults aged 15 to 49 are HIV/AIDS infected. Overall, an estimated 1.5 million adults and children were living with HIV/AIDS in 1999. While the life expectancy in Zimbabwe prior to the AIDS pandemic was 65, it is projected to decrease to approximately 39 by 2005. HIV/AIDS may negatively affect households by increasing dependency ratios, reducing the level of household income, and diverting resources.

Zambuko Trust

Zambuko began in 1992 and is a partner in the Opportunity International Network. Its mission is "to be a bridge between the marginalized, the unemployed and opportunities for enterprise and income generation" in Zimbabwe. It offers group co-guaranteed loans and individual loans backed by guarantors to individuals who have a microenterprise that is at least six months old, are not employed fulltime elsewhere, and have an enterprise that is deemed to be financially viable. The loans are normally nine to twelve months in duration and repaid on a monthly basis. Microcredit is accompanied by an orientation session that teaches sound business management practices and loan officers provide business management advice.

Also, Zambuko has a special loan product targeted at the very poor. It requires potential borrowers to attend eight hours of training, focused mainly on business management. The loans are usually for six months and are repaid on a monthly basis. Thus, Zambuko's microfinance program centers on microcredit, supplemented by business management training.

Zambuko has branch offices in all of Zimbabwe's major towns. Since 1996 it has extended more than 10,000 loans each year. It issues more loans to microentrepreneurs than any other organization in Zimbabwe.

Microentrepreneurs and their Households

The profile of Zambuko clients reveals that among those interviewed in 1997 approximately two-thirds of the new clients and half of the repeat clients were from households under the US$2 per capita a day poverty line. The typical client in the survey is a married female about 41 years old, with seven to eight years of education. Her household has five to six persons living in a residence that they either own or are purchasing through a rent-to-buy arrangement.

An important finding is that between 1997 and 1999 nearly half of the respondents had an increase in the proportion of their household members who were not economically active. The tendency toward a higher economic dependency ratio partially reflected the dependency status of individuals who joined the respondents' households during the study period. Most new members were the result of births and persons looking for work joining the household. Twelve percent of the households took in a sick person or a person from a household that had experienced illness or death. Also, at the time of the 1999 interview, thirteen percent of the clients who had not taken a loan since 1997, referred to as departing clients, had a household member who was chronically ill and unable to work in the last six months.

An analysis of factors that were significantly associated with movement of households out of extreme poverty by 1999 indicated that the change was primarily related to fewer household members, more sources of income, and a lower economic dependency ratio. Since the definition of poverty was primarily based on daily per capita income, the household's size, structure and number of income sources influenced whether it moved out of extreme poverty. The same factors contributed to movement into poverty.

The contribution of enterprises to total household income was 56 percent in 1999, revealing a decline since 1997 when it averaged two-thirds of total household income. Approximately half of the enterprises for which clients had secured their loans and against which non-clients were matched (referred to as matched enterprises) were in manufacturing. These enterprises were primarily focused on knitting, sewing and crocheting items for sale. Forty percent of the matched enterprises were in trade and less than 10 percent were engaged in services, agriculture and food preparation.

Clients' Use of Credit

The cumulative sum of all loans borrowed from Zambuko averaged Z$10,052 per person for those who had taken at least one loan since 1997, referred to as continuing clients, and Z$2,921 for the departing clients.[1] Sixty percent of the continuing clients had taken three or more loans from Zambuko. In contrast, 60 percent of the departing clients had taken only one loan.

[1] One U.S. dollar was equivalent to Z$11.9 in September 1997 and Z$38.1 in September 1999.

In 1997 the average size of the last loan was equivalent to 20 to 25 percent of the client's monthly net revenue from the enterprise that secured the loan, and approximately 12 percent of the client household's total monthly income. Thus, the loan size was relatively small in terms of total household income. This suggests that the borrowers may draw on money from other sources to assist with repaying the loan.

Approximately half of the client respondents used their 1997 loans exclusively for their enterprise. The other half used a small portion for savings or household needs and the rest for their enterprise. The use of funds outside the enterprise was not significantly related to the timely repayment of the loan. Clients normally use their loans to purchase enterprise inputs or stock in bulk.

In 1997 approximately 60 percent of the client respondents reported that if they had not received a loan from Zambuko they would not have made such expenditures. Among those who had taken a loan since then, half of them reported that they would not have made such expenditures if they had not received a loan from Zambuko.

Borrowing from other formal sources and from informal sources appears to be limited. Borrowing from informal sources occurs, but plays a minor role since the amounts are usually small. Other than microfinance organizations, the main source of formal credit are businesses that sell furniture, appliances and other types of durable assets on a hire-purchase arrangement to households with a wage earner in the formal sector. The findings suggest the potential for expansion of credit by formal institutions, especially when the economy improves.

Program Impacts

The results from the impact analysis of the survey data, which controlled for specific, initial differences, make a strong case that Zambuko's program has a positive impact on its clients. The impacts tend to vary among clients based on whether or not they had remained in the program. In some areas, microfinance appears to have an impact only on continuing clients, departing clients or those who were continuing clients that had received more than one loan at the time of the 1997 interview, referred to as repeat continuing clients. The results suggest that Zambuko's program has a positive impact on clients from extremely poor households, especially among those who remain in the program.

Household Level. Loans provide a lump sum of money that clients tend to use for their enterprise. The generation of profits from the use of the loans and better management of financial resources are likely to explain the ability of client households to make lump sum expenditures. The results suggest that participation in Zambuko had an impact on *client households acquiring assets*. Participation appears to be strongly related to the amount of money repeat continuing client households had spent on household durable assets. Also, the results indicate a positive impact on the acquisition of a stove by the households of continuing clients and departing clients, and the acquisition of a refrigerator by continuing client households. Both of these assets are timesaving devices, which improve the quality of life for women who are responsible for preparation of meals.

Zambuko's program also appeared to have a positive impact on *the value of funeral-related assistance* that continuing client households provided to other households. This also indicates the improved ability to make lump-sum expenditures.

Education of children in the household represents an investment in the future income-earning potential of household members. This investment is both in terms of expenditure of funds and foregoing labor in the household and its enterprises. Attendance at urban public primary schools involves payment of tuition and special fees, and expenditures on uniforms and other items. In 1999 the proportion of the household's boys aged 6 to 16 attending school was higher for the continuing and departing clients than the non-clients. The same pattern was apparent when analyzing only those households that were extremely poor in 1999. The results suggest that Zambuko's program had an impact on the education of boys aged 6 to 16 in client households.

Participation in Zambuko's program also appeared to have had a positive impact on the *frequency nutritious foods were consumed* in extremely poor households and the *diversification of income sources* among departing clients. Better management of financial resources is likely to explain the higher consumption levels found among extremely poor continuing clients, compared to non-clients, in the frequency that meat, chicken or fish, and milk were consumed in their households. The results on the diversification of income sources among departing clients imply that loans enabled these households to gain an additional income source.

In the month prior to the 1999 interview, the *income* in continuing client households averaged Z$4,4091, adjusted to 1997 constant values to take into account inflation. This represented a decrease of approximately Z$400 compared to the month prior to the 1997 interview. Departing clients and non-clients had lower levels of income both years than did continuing clients. However, by 1999 these two groups managed to increase their monthly household incomes to Z$4,032 and Z$3,555 respectively, in inflation adjusted values, representing a 20 percent increase for departing clients and 33 percent increase for non-clients. When controlling for initial differences, the 1999 level of income did not appear to have been related to participation in Zambuko's program.

Most respondent households experienced at least one, major financial shock in the two years prior to the 1997 and the 1999 interviews. Serious illness of a household member, financial obligations to non-household members, and death of a household member were the most frequently reported causes of the financial shocks. Almost no household sold or rented out assets as a coping strategy. Most households dealt with the financial shocks by reallocating their income and drawing down their savings. The *coping strategies* were similar across client and non-client households.

The results suggest impacts that relate to selective allocation of financial resources. The following appear to have been unaffected by participation in the microfinance program: the value of assistance given to non-household members, education of household's girls aged 6 to 16, expenditures on housing improvements, and acquisition of a television, electric fan or means of transport.

Enterprise Level. Estimates were collected on the *net revenue* the month prior to the interview for the matched enterprise and other microenterprises owned by the household. The results reveal that the average monthly net revenue of the matched enterprises in 1999 was lower in inflation adjusted values than in 1997 for the continuing clients, departing clients and non-clients. The decreases were especially evident in the enterprises of the extremely poor. Further analysis suggests that Zambuko had a positive impact on the inflation-adjusted value of the monthly net revenue of the matched enterprise of repeat continuing clients. In spite of the unfavorable economic environment, they earned an estimated Z$1,380 a month more than the non-clients in 1999.

When considering the total net revenue from all the household's enterprises, positive gains were made by the departing clients and non-clients. Nevertheless, both years the level of income was higher for the continuing clients than the other two comparison groups. The estimated values in 1999 did not suggest that microfinance had an impact on the level of income from all the household's enterprises.

Also, participation in the microfinance program does not appear to have had an impact on *employment* in the matched enterprise and in all household enterprises. Employment was measured by the number of paid employees, total person-hours worked last week, and total person-days worked last month. The results are likely to be related to the unfavorable economic conditions for microenterprises in 1999.

The *value of assets* in the matched enterprise and all household enterprises tended to be higher in both 1997 and 1999 for the continuing and departing client groups, than the non-clients. The impact analysis did not suggest that the differences in 1999 between the groups were associated with participation in Zambuko's program. Nevertheless, the average value of all enterprise assets in 1999 for departing client households was estimated to be Z$4,987 more than for the non-client households.

Transaction relationships refer to ways microentrepreneurs organize and manage their businesses in reference to others. The study found that transaction relationships in the matched enterprises were largely unaffected by participation in the microfinance program. The majority of respondents operated their enterprises from their residence in both 1997 and 1999. Clients were more likely than non-clients to sell outside their town of residence, in small towns and rural areas in Zimbabwe and places in South Africa. The pattern did not change significantly from 1997 to 1999. The respondents sell to individuals who are normally the final consumer. These customers often ask for credit. Among those who extended credit, significantly more departing clients than non-clients *insisted on a deposit* in 1999. The result suggests the influence of training by Zambuko.

Individual Level. Participation in a microfinance program may have positive or negative impacts on the individual borrowers. Participation in Zambuko's program appears to have had a positive impact on clients having an *individual savings account* and on the *number of ways extreme poor continuing clients' saved*. Both of these imply that participation in a program that does not contain a savings component nevertheless may have an impact on the way people save.
When excluding training from Zambuko, approximately 10 percent of all respondents had received *business management training* between 1997 and 1999. Among those who had been trained, approximately three-fourths reported that they had done something differently as a result. The most common change was improvement in business record keeping, followed by 'better financial management.' More than three-fourths of those not receiving training said that they would be

interested in attending a course, but the majority did not know of a source.

The case study findings support the hypotheses that participation in a microfinance program can lead to *greater self-esteem and self-confidence*, and enhances *clients' ability to plan for the future*. The greater self-esteem and self-confidence appear to be associated with clients' increased ability to manage their enterprise, meet the financial demands of the household, and acquire assets.

Implications

The assessment's findings and conclusions have implications for microfinance institutions (MFIs) in Zimbabwe. The implications may also have broader applicability.

Influence of the Macroenvironment. High rates of inflation are likely to place economic stress on MFIs as well as households. For MFIs, the loan money repaid has a lower real value than the money borrowed. Also, interest rates may not keep pace with inflation. Therefore, a MFI is likely to suffer as the money received has less value than the money paid out. Over time, this may lead to an erosion of the MFI's capital base. Fees charged in addition to the interest rate should be increased on a regular basis to keep pace with inflation. For clients, inflation is likely to put economic stress on their enterprise, which makes it difficult to increase the real value of their enterprise net revenue, which in turn may affect the household's allocation of income. The likely negative effect of high inflation on MFIs and clients suggests that caution should be exercised in the establishment of new microcredit programs and expansion of existing credit programs, until the economy improves. An inflationary environment also implies that MFIs may be faced with decisions related to the level of services that can and should be provided.

Financial Products and Terms. The assessment results suggest that there may be a market for small, short-term loans. Many microentrepreneurs join a microcredit program to test if it is appropriate for them. The findings reveal that 60 percent of the client respondents who did not seek another loan after 1997 had received only one loan. Also, nearly half of the Zambuko's clients are traders and even those in manufacturing did not tend to invest their loan funds in an enterprise asset. Traders in particular have rather rapid turn-around times and loans of four- to six-month duration appear to be more suited to their needs. Moreover, an assessment to determine the feasibility of a short-term loan is likely to be more accurate than an assessment for a longer-term loan, given the unstable economic environment and situation of households.

The findings also suggest that there is a dearth of financial services accessible to microentrepreneurs' households for non-enterprise investments. There may be a niche market for loans specifically related to the building of rental units by those who own their homes. These loans would most likely require a repayment period longer than one year.

Given that repayment problems were not found to be associated with the use of some of the loan funds outside the enterprise, when the economy improves, it may be worth exploring the feasibility of offering loans, secured by an enterprise or another source of income, for educational or emergency needs. Also, there may be a demand for savings accounts that are designated for limited uses, such as educational expenses. While in general, there does not appear to be a lack of access to savings services in these key urban areas, restricted access accounts might help individuals set aside money for specific, lump sum needs. The findings do indicate that clients save in spite of inflationary pressures, since they need access to cash for school fees and unanticipated lump sum expenditures.

Business Management Training. The case studies and survey data on business management training reveal that microentrepreneurs value and benefit from basic business management training. There appears to be an unmet demand for this type of training that is appropriate to low-income microentrepreneurs. MFIs in Zimbabwe may want to pilot a training product focused on this target group to determine if it can be a financially sustainable service. Or, there may be scope for MFIs in Zimbabwe to establish a partnership with an existing business management training organization that can provide appropriate training.

Poverty Reduction. The results show that microfinance programs can reach and serve the poor. Moreover, they may have a positive impact on extremely poor households. The findings, however, suggest that household size and structure strongly influence whether or not a household moves out of extreme poverty, when poverty is defined primarily by per capita daily income, taking into account purchasing power parity. This implies that movement of households out of poverty may be beyond the reaches of microfinance programs.

Program Leavers. Clients have left the Zambuko program for a number of reasons. Clients often leave due to difficulties repaying the loan and this departure may be either voluntary or coerced. Others leave because they move outside the program's catchment area. Especially during periods of instability in the economy and household, some may leave, despite satisfaction with the program, because they do not have an obvious, viable use for credit at a given time. They may want to 'rest' for a time before taking another loan. The value of an MFI program like Zambuko is that it provides access to institutional credit otherwise not available to poor households in Zimbabwe.

Implications for Future Assessments. A number of key lessons were learned in the conduct of this assessment. These lessons may be useful not only to the microfinance industry but also other types of programs concerned with measuring their results.

First, the experience highlighted that care ought to be used in setting increased household income as an indicator of program results. While many programs targeted at the disadvantaged and poor often seek to increase household income, a number of non-program factors can influence household income levels irrespective of the program. Therefore, it might be more reasonable to expect a program to increase a particular source of income, rather than total household income. As suggested by this and other studies, income is difficult to measure precisely. Therefore, a multi-pronged approach that considers income, indicators of expenditure flows, and asset accumulation help to overcome this weakness.

Second, the survey findings indicate the importance of using a non-client control group. This group represents what occurred among non-program participants and enables the analysts to more convincingly identify the specific impacts of program participation.

Third, the findings on changes in the household's poverty status indicate that the definition influences the results. This suggests the need for the microfinance industry to agree on some common approaches to defining and discussing poverty.